

capital requirement. It is our view that the Proposed Rule effectively supersedes the permanent capital ratio and, in so doing, excludes a large share of member-held stock as regulatory capital. I believe this aspect of the Proposed Rule thwarts congressional intent that allows all member-held, at-risk equity to count as regulatory capital. It also lacks the transparency sought in the Basel III framework by effectively ignoring legitimate at-risk capital investment in the association.

New Tier 1 leverage ratio. I believe the proposed 5% standard for the new Tier 1 leverage ratio is an arbitrary and capricious deviation from Basel III. There is simply no quantitative analysis or loss experience that justifies a 5% Tier 1 leverage ratio for the FCS while all other regulated financial institutions regardless of structure are subject to a 4% requirement. It is clear to me that FCA's proposal is excessive, unsupported, creates an unnecessary inconsistency with Basel III and would result in higher borrowing costs to the member-customers. This inconsistency with Basel III and with the approach taken by regulators around the globe will raise questions about the FCS's risk profile compared to other lending institutions. Such questions will irreparably harm the FCS and its mission achievement. In addition, the arbitrary higher leverage ratio will result in unnecessarily higher "dual capitalization" at wholesale FCS banks, given the two-tiered capitalization structure inherent in the FCS. For these reasons I ask FCA to establish a 4% Tier 1 leverage ratio consistent with the Basel III guidance.

I am confident that, with the refinements to address the issues raised above, the proposed capital rule can be made workable and effective from a safety and soundness perspective and consistent with the implementation of Basel III by other regulators. Most importantly, these refinements are critical to ensure that the FCS can continue to function consistent with cooperative principles for the benefit of its member-customers as Congress clearly intended.

I feel that it is my responsibility as a director to protect the System's cooperative structure. This cooperative structure sets us apart from other financial institutions and it has given us the ability to fulfill our mission for nearly 100 years.

I appreciate the opportunity to comment on this proposed rule and FCA's willingness to consider my feedback.

Sincerely,



Craig Gnos
Director
Farm Credit West